Thirtieth Annual Report

CAROLINA, CLINCHFIELD AND OHIO RAILWAY

FOR THE YEAR ENDED
December 31, 1940

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CAROLINA, CLINCHFIELD AND OHIO RAILWAY

BOARD OF DIRECTORS

JOHN B. DENNIS, *Chairman*	New York, N. Y.
EDWARD C. BAILLY	New York, N. Y.
M. N. BUCKNER	New York, N. Y.
T. J. CUNNINGHAM	New York, N. Y.
H. R. DENNIS	New York, N. Y.
* W. W. MILLER	New York, N. Y.
J. W. PLESS	Asheville, N. C.
W. M. RITTER	Columbus, Ohio
H. H. VREELAND	New York, N. Y.

* Died July 16, 1940.

OFFICERS

JOHN B. DENNIS	*President*
EDWARD C. BAILLY	*Vice-President*
T. J. CUNNINGHAM	*Secretary & Treasurer*
WARREN P. EATON	*Ass't Sec'y & Ass't Treas.*
JOHN W. SANDERS	*Ass't Sec'y & Ass't Treas.*

MILLER, OWEN, OTIS & BAILLY — *General Counsel*

NEW YORK OFFICE — 1 East 57th Street

Stock Transfer Agent
and
Dividend Disbursing Agent

THE NEW YORK TRUST COMPANY
100 Broadway, New York.

Stock Registrar

BANKERS TRUST COMPANY
16 Wall Street, New York.

THIRTIETH ANNUAL REPORT

NEW YORK, April 1, 1941.

To the Stockholders of

CAROLINA, CLINCHFIELD AND OHIO RAILWAY:

The Thirtieth Annual Report of the Board of Directors, for the year ended December 31, 1940, is submitted herewith:

Under an indenture dated October 16, 1924, the properties of Carolina, Clinchfield and Ohio Railway and its subsidiaries were leased to Atlantic Coast Line Railroad Company and Louisville and Nashville Railroad Company for a period of 999 years from May 11, 1923, at an annual money rental as follows:

3% on $25,000,000 Capital Stock, or $750,000 annually, for three years from January 1, 1925.

4% on $25,000,000 Capital Stock, or $1,000,000 annually, for ten years from January 1, 1928.

5% on $25,000,000 Capital Stock, or $1,250,000 annually, from January 1, 1938, to May 10, 2922.

In addition to the foregoing money rental, the Lessees agree to pay the interest charges on the outstanding funded debt of and guaranteed by the Carolina, Clinchfield and Ohio Railway and on any bonds that may be issued to refund the same.

The Lease also provides that the Lessees will pay all charges and other expenses in connection with the payment of interest, shall pay all taxes upon the franchises and leased property and the income thereof, and shall also pay a sum equal to the annual corporate expenses of the Lessors not in excess of $12,000 per annum. All rental payments under the Lease are the joint and several obligations of the Atlantic Coast Line Railroad Company and the Louisville and Nashville Railroad Company.

The Lease expressly provides that in case of the issuance of any additional capital stock of the Railway, it shall be stock of a class which has no right to participate in any dividends declared from the money rentals above mentioned, which money rentals have been fixed at the amount specified for the purpose of enabling the Railway to pay dividends upon

the $25,000,000 par value Capital Stock at the rates and for the periods above mentioned, and are not intended to be used for any other purposes whatsoever. In consideration of these money rentals, the stockholder agrees with the Lessees that he will vote his stock in such manner as is necessary to carry out the provisions of the Lease from time to time.

The payment of the above-mentioned annual money rental is to be made in equal quarterly instalments beginning April 1, 1925, to enable the Lessor to pay dividends upon its $25,000,000 Capital Stock at the rates specified.

Possession of the leased properties was delivered to the Lessees on December 1, 1924, and the first payment of the money rental under the Lease was made to the Lessors on April 1, 1925. On April 10, 1925, the first dividend of 75 cents per share, payable out of said money rental, was paid by the Railway to the record holders of the $25,000,000 par value of outstanding Capital Stock.

The making of the aforesaid Lease was authorized by the Interstate Commerce Commission on June 3, 1924 (Finance Docket No. 3131).

Quarterly dividends, at the rate of five per cent. per annum on the Railway's $25,000,000 Capital Stock, were paid during the year out of the money rental received from the Lessees.

Pursuant to request of the Atlantic Coast Line Railroad Company and Louisville and Nashville Railroad Company, Lessees, that provision be made for the retirement of bonds outstanding under the Railway's First and Consolidated Mortgage and for the payment before maturity of its promissory note in favor of the Reconstruction Finance Corporation or order, and after due authorization by the stockholders and the Board of Directors of the Railway, at special meetings held August 22, 1940, the Railway executed and delivered to J. P. Morgan & Co. Incorporated, New York, N. Y., as Trustee, a mortgage and deed of trust (known as the Railway's First Mortgage), dated as of September 1, 1940, covering all the properties and equipment of the Railway and all of the capital stock and bonds of its subsidiary, Carolina, Clinchfield and Ohio Railway of South Carolina, and providing for an authorized issue of First Mortgage bonds, limited to the principal amount of $50,000,000 at any one time outstanding. Said First Mortgage bonds are issuable from time to time, as provided in the Mort-

gage, in series, and all such bonds shall contain such terms as the Board of Directors of the Railway may from time to time determine.

Under a Supplemental Indenture, also dated as of September 1, 1940, $22,150,000 principal amount of First Mortgage 4% Bonds, Series A, dated September 1, 1940, maturing September 1, 1965, unconditionally guaranteed as to principal, interest and sinking fund payments jointly and severally by endorsement by the Lessees, were issued and sold at 100½% of the principal amount thereof, plus accrued interest, in accordance with Report and Order of the Interstate Commerce Commission filed September 13, 1940, in Finance Docket No. 13018 and 13018 (Sub No. 1). The First Mortgage 4% Bonds, Series A, are limited to $22,150,000 aggregate principal amount. The net proceeds, together with additional funds furnished by the Lessees, were used (1) to retire $8,000,000 principal amount of the Railway's First and Consolidated Mortgage 6% Bonds, Series A, due December 15, 1952, called for redemption on December 15, 1940, at 106%, with accrued interest to December 15, 1940, and (2) to prepay the Railway's $14,150,000 5% Promissory Note (rate reduced to 3%) payable on or before May 27, 1943, in favor of Reconstruction Finance Corporation or order. In connection therewith, a like principal amount of the Railway's First and Consolidated Mortgage 5% Bonds, Series B, due April 1, 1956, pledged as collateral for said Note, were retired.

The First Mortgage 4% Bonds, Series A, due 1965, have been listed on the New York Stock Exchange and registered with the Securities and Exchange Commission.

The Lessees have assigned to the Trustee of the Railway's First Mortgage, as collateral security for all bonds which may be issued under said Mortgage, all right, title and interest which they may have in equipment heretofore or hereafter acquired in operating the lines of the Railway, either as renewals or replacements of, or as additions and betterments to, the equipment covered by the Lease. To the extent, if any, that the liens of outstanding mortgages of the Lessees attach to any such equipment, the aforesaid assignment to the Trustee is subject to such liens.

The Lease of October 16, 1924, has been subordinated to the Railway's First Mortgage.

The new First Mortgage supersedes the First and Consolidated Mortgage, dated December 15, 1922, which has been satisfied, released and discharged of record.

By supplemental indenture, dated August 16, 1940, $3,000,000 First Mortgage 5% Bonds of Carolina, Clinchfield and Ohio Railway of South Carolina, which matured on June 1, 1938, owned by the Railway, were

extended to mature on December 15, 1952. Said extended bonds are pledged with the Trustee of the Railway's First Mortgage, dated as of September 1, 1940.

Pursuant to authority of the Interstate Commerce Commission, referred to in the Annual Report for 1939, all the properties of Clinchfield Northern Railway of Kentucky were conveyed on March 26, 1940, to Carolina, Clinchfield and Ohio Railway. The Clinchfield Northern Railway of Kentucky was dissolved on July 11, 1940.

At a meeting of the Board of Directors on the 23d day of July, following the death on July 16th of Mr. William W. Miller, the following resolutions were adopted:

> RESOLVED, that the Board of Directors of Carolina, Clinchfield and Ohio Railway hereby record their deep regret and sorrow upon the death on July 16, 1940, of their associate, William W. Miller; and further
>
> RESOLVED, that, in tribute of appreciation and affection for his long and faithful services as a director and legal adviser of the company, there be inscribed upon the minutes of this meeting their recognition that through his death the company has suffered the loss of a most loyal and helpful director, whose judgment and counsel have always been of great value in the conduct of the affairs of the company, and that he will be greatly missed and long remembered; and further
>
> RESOLVED, that a copy of these resolutions be transmitted to his bereaved family as an expression of our heartfelt sympathy and esteem.

Submitted as a part of this report are a statement of mileage, a summary of the operation of the leased properties, a copy of the consolidated balance sheet and a description of the funded debt.

For the Board of Directors,

JOHN B. DENNIS,
President.

MILEAGE

The mileage owned by Carolina, Clinchfield and Ohio Railway and its subsidiary, Carolina, Clinchfield and Ohio Railway of South Carolina, is as follows:

	Miles
Carolina, Clinchfield and Ohio Railway:	
Main line: Elkhorn City, Ky., to N. C.-S. C. State Line....	258.76
Branch lines: Carbo, Va., to Wilder, Va.....	8.40 *
Bostic Yard, N. C., to Junction S. A. L. Ry...	.79
Carolina, Clinchfield and Ohio Railway of South Carolina:	
Main line: N. C.-S. C. State Line to Spartanburg, S. C.....	18.09
Total	286.04

The foregoing mileage since December 1, 1924, has been operated by the Lessees under the name of "Clinchfield Railroad Company."

In addition to the foregoing mileage, the Lessees also operate the following mileage under trackage rights formerly held by Carolina, Clinchfield and Ohio Railway System:

Chesapeake and Ohio Railway, Elkhorn City, Ky.....	.13
Norfolk and Western Railway, Carbo, Va., to St. Paul, Va.....	8.45
Southern Railway: Frisco, Tenn., to Albert Yard, Va.....	13.60
" " Spartanburg, S. C.....	.09
Total	22.27

This makes the total mileage operated by the Lessees, under the Lease, 308.31 miles.

* Includes 2.69 miles on which the rail and fastenings are owned by the Railway and the ties and roadbed owned by industries.

RESULTS OF OPERATION BY LESSEES

The following is a summary of the results of operation of the leased properties, for the year ended December 31, 1940, as reported by the Lessees:

Railway operating revenues		$8,473,835.83
Railway operating expenses		4,017,471.98
Net revenue from railway operations		$4,456,363.85
Railway tax accruals		1,004,753.74*
Railway operating income		$3,451,610.11
Equipment rents	$220,783.61	
Joint facility rents ..... *Dr.*	*307.66*	220,475.95
Net railway operating income		$3,672,086.06
Non-operating income		11,988.08
Gross income		$3,684,074.14
Deductions from gross income:		
Lessor's fixed charges	$1,164,128.99	
Dividend rental	1,250,000.00	
Miscellaneous rental	31,315.61	
Total rental under Lease ..	$2,445,444.60	
Other deductions	49,231.38	2,494,675.98
Net Income		$1,189,398.16

* Income taxes assessed against the Railway but paid by the Lessees are included in Railway tax accruals, in accordance with Classification of Accounts of Interstate Commerce Commission. In 1939 they were shown under Deductions from Gross Income.

CAROLINA, CLINCHFIELD AND OHIO RAILWAY

AND

CAROLINA, CLINCHFIELD AND OHIO RAILWAY OF SOUTH CAROLINA

CONSOLIDATED GENERAL BALANCE SHEET

DECEMBER 31, 1940

ASSETS

Investments:	
Investment in road and equipment	$65,685,167.53
Miscellaneous physical property	64,388.87
Total investments	$65,749,556.40
Current Assets:	
Cash	$ 133.29
Special deposits	391,929.00
Rents receivable	312,500.00
Total current assets	$ 704,562.29
Deferred Assets:	
Working fund advances	$ 100.00
Due from the Lessees:	
To be accounted for at termination of Lease	3,087,112.68
Total deferred assets	$ 3,087,212.68
Total Assets	$69,541,331.37

CAROLINA, CLINCHFIELD AND OHIO RAILWAY

AND

CAROLINA, CLINCHFIELD AND OHIO RAILWAY OF SOUTH CAROLINA

CONSOLIDATED GENERAL BALANCE SHEET

DECEMBER 31, 1940

LIABILITIES

Capital stock	$25,000,000.00
Funded debt unmatured:	
First Mortgage 4% Bonds, Series A	$22,150,000.00
Current Liabilities:	
Interest matured unpaid	$ 6,831.00
Unmatured dividends declared	312,500.00
Other current liabilities	385,098.00
Total current liabilities	$ 704,429.00
Deferred Liabilities—Due to the Lessees:	
For securities surrendered	$ 2,840,886.56
For balance of funds deposited Trustee, First and Consolidated Mortgage, withdrawn by C. C. & O. Ry to pay for additions and betterments	146,630.86
Total	$ 2,987,517.42
Less amount due by Lessees for property retired, less additions and betterments	1,011,852.28
Total deferred liabilities	$ 1,975,665.14
Unadjusted Credits:	
Premium on funded debt	$ 31,562.43
Accrued depreciation—Equipment	2,077,219.31
Total unadjusted credits	$ 2,108,781.74
Corporate Surplus:	
Additions to property through income and surplus	$ 69,170.52
Profit and loss—Balance	17,533,284.97
Total corporate surplus	$17,602,455.49
Total Liabilities	$69,541,331.37

DESCRIPTION OF FUNDED DEBT
DECEMBER 31, 1940

CAROLINA, CLINCHFIELD AND OHIO RAILWAY
FIRST MORTGAGE 4% BONDS, SERIES A:

Dated September 1, 1940, due September 1, 1965, secured by first mortgage on the line of railway and other property from Elkhorn City, Kentucky, to North Carolina-South Carolina state line, 265 miles, by equipment, and by the entire capital stock ($12,000) and $3,000,000 principal amount (entire issue) of First Mortgage Bonds of Carolina, Clinchfield and Ohio Railway of South Carolina, extended to December 15, 1952. Amount authorized and outstanding, $22,150,000. Bonds unconditionally guaranteed as to principal, interest and sinking fund payments jointly and severally by endorsement by Atlantic Coast Line Railroad Company and Louisville and Nashville Railroad Company. Trustee: J. P. Morgan & Co. Incorporated, New York, N.Y. Coupon bonds in denomination of $1,000 each, registerable as to principal only. Fully registered bonds, without coupons, in denominations of $1,000, $5,000, $10,000, $100,000 and any multiple of $100,000 authorized by the Board of Directors. Coupon bonds and registered bonds without coupons are interchangeable. Interest payable March 1 and September 1 at office of Louisville and Nashville Railroad Company, 71 Broadway, New York. Redeemable, as a whole or in part, after not less than 45 days' published notice, on any interest payment date to and including September 1, 1963, and on any date thereafter at the following percentages of the principal sum, viz.: to and including September 1, 1945, at 107½%; thereafter to and including September 1, 1950, at 106%; thereafter to and including September 1, 1955, at 104½%; thereafter to and including September 1, 1960, at 103%; thereafter to and including September 1, 1963, at 101½%; and thereafter at 100%; plus accrued interest in all cases. Semi-annual non-cumulative sinking fund of $110,750 to be applied to the purchase or redemption of the Bonds.

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